COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

TARIFF FILING OF WEST KENTUCKY RURAL TELEPHONE COOPERATIVE CORPORATION, INC.	))	CASE NO. 2013-00196

ORDER

On April 4, 2013, West Kentucky Rural Telephone Cooperative Corporation, Inc. ("West Kentucky") filed with the Commission revised tariff sheets that contained an increase in basic local exchange rates for a small subset of customers who still retain rotary dial telephone service. The increase in rates would result from the elimination of a grandfather provision that allowed former rotary dial customers to be charged the rates they were charged at the time West Kentucky discontinued rotary dial service in 1997. The affected customers' rates would increase to the rates charged to basic local exchange customers. West Kentucky informed the Commission of its intent to place its proposed rates into effect on and after May 31, 2013, in order to meet the rate floor mandated in 47 C.F.R. § 54.318. On May 29, 2013, the Commission found that further proceedings were necessary to determine the reasonableness of the proposed rates, and that such proceedings could not be completed prior to the proposed effective date. The Commission suspended the proposed rates from May 31, 2013, until June 1, 2013, when they were allowed to go into effect subject to refund.

The Commission's May 29, 2013 Order in this proceeding also required West Kentucky to comply with certain filing requirements relating to a general rate increase in accordance with the Commission's administrative regulations. The Order also requested certain information related to the proposed rate increase that would result from the canceling of grandfathered rotary dial telephone service rates. West Kentucky filed some of the information requested with the Commission on June 11, 2013. West Kentucky, because of the minimal impact of eliminating the rotary dial grandfather provision, also requested deviation from the filing requirements for general rate adjustments in 807 KAR 5:001, Section 10.[1]

West Kentucky filed its tariff sheets to comply with the 2011 directive of the Federal Communications Commission ("FCC") that, *inter alia*, comprehensively reformed intercarrier compensation.[2] In addition to establishing a glide path to reduce access charges to zero, the FCC's ICC/USF Order also established a rate floor for local exchange rates.[3] The FCC required that Local Exchange Carriers, such as West Kentucky, shall be eligible to receive high-cost support in a study area only if their rates for local exchange service are at or above the rate floor on June 1 of every subsequent year. Failure to meet the rate floor will result in forfeiture of the high-cost support that the carrier would have otherwise received for that year.[4]

The Commission is cognizant that West Kentucky's ability to receive high-cost loop support will be jeopardized if its rates for basic local exchange service are not at or above the $14.00 rate floor mandated in the FCC's ICC/USF Order. The loss of Federal

[1] The administrative regulations from which West Kentucky seeks deviation have been renumbered subsequent to the filing of West Kentucky's application.

[2] See, *In the matter of Connect America Fund et. al., Report and Order and Further Notice of Proposed Rulemaking,* FCC 11-161 (November 18, 2011) ("FCC's ICC/USF Order").

[3] *Id.* at ¶ 238.

[4] *Id.* at ¶ 239.

funding will necessitate even larger rate increases in the future to offset loss of Federal funding.

West Kentucky is a rural incumbent local exchange carrier serving individuals and businesses within all or parts of Carlisle, Graves, Marshall, Hickman, and Calloway counties (the "Service Territory"). West Kentucky was established in 1951 as a corporation to provide local telephone service to business and individual customers within the exchanges of Cunningham, Lowes, Folsomdale, West Plains, Fair Dealing, Harding, Kirksy, New Concord, Hazel, Lynn Grove, Farmington, Lynnville, Sedalia, Wingo, and Fancy Farm, Kentucky. West Kentucky provides service to approximately 9,911 residential lines and 1,050 business lines. West Kentucky is an eligible telecommunications carrier ("ETC") in the communities it serves and is also the carrier of last resort ("COLR") in its Service Territory. In 2013, West Kentucky expects to receive approximately $2,818,692 from the High Cost Loop Support ("HCLS") to support its COLR responsibilities in its Service Territory.

West Kentucky has not had a rate increase since 1981 and states it would not otherwise make this filing were it not for the FCC's ICC/USF Order. West Kentucky has provided ample notice to its affected members.

The rates that West Kentucky seeks to raise are for customers that receive service at rates that are below both West Kentucky's current rates for basic local exchange service and the FCC's $14.00 rate floor. These customers are charged rates pursuant to grandfathered rotary dial telephone service rates. West Kentucky ceased providing rotary dial telephone service in 1997. However, customers who still used rotary dialed service at that time were grandfathered at the then-current rate of $13.06

for residential customers and $19.06 for business customers. At the time of the filing of this application, 315 residential customers and seven business customers received service under the grandfathered rates. By eliminating the grandfather clause, the affected customers' rates would increase to applicable basic local exchange rates charged to residential and business customers, respectively. Residential customers' monthly rates would increase from $13.06 to $14.56, and business customers' monthly rates would increase from $19.06 to $21.06.

Because West Kentucky's current rates for the grandfathered members were below the June 1, 2013 rate floor established by the FCC, West Kentucky had to increase these rates in order to avoid a loss of eligibility of HCLS. Based on its current access line count, failure to meet the FCC's $14.00 rate floor would deprive West Kentucky of approximately $3,553 in HCLS to which the company would otherwise be entitled.

Additionally, as part of the FCC's ICC/USF Order, the FCC established that the intercarrier compensation collected in the 2011 fiscal year, from October 1, 2010, to September 30, 2011, was the maximum amount of allowed revenues from intercarrier compensation as established by the FCC. The FCC's ICC/USF Order also established a phase-down schedule of those maximum amounts allowed, requiring that the maximum intercarrier compensation amount be reduced by 5.00 percent for the 2012 fiscal year and 4.75 percent for the 2013 fiscal year. With this change, West Kentucky cannot collect more than the maximum intercarrier compensation revenue amount.

The Commission also notes that the telecommunications market has gone through and continues to go through major changes. The General Assembly has enacted substantial changes to the authority of the Commission in light of competitive choices and options available to consumers.[5] For example, the Commission has jurisdiction only over basic service rates of telecommunication companies, which include only a single business or residential service line.[6] All other retail rates of the telecommunications companies are not subject to the Commission's rate regulation. The Commission also notes that in the case of West Kentucky, it is a cooperative organization subject to the board of directors of the cooperative and its member owners.

The Commission finds that, based on the foregoing information submitted by West Kentucky and the potential loss of high-cost support, the rate increase should be granted on a permanent basis. West Kentucky has demonstrated that the proposed rate increase is necessitated by the FCC's ICC/USF Order and is reasonable. The Commission also finds that, under the circumstances of this case, West Kentucky should be granted deviation from the filing requirements in 807 KAR 5:001, Section 16.[7]

The Commission notes that West Kentucky response to the Commission's Order of May 29, 2013, was due to be filed no later than June 10, 2013. West Kentucky filed its response one day late on June 11, 2013, and has not requested an extension of time in which to file its response. The Commission finds, *sua sponte*, that West Kentucky

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[5] KRS 278.541–544.

[6] KRS 278.541(1).

[7] As noted, *supra*, the regulation from which West Kentucky seeks deviation has been renumbered; accordingly, the regulation listed here corresponds to the regulation as currently numbered and promulgated.

should be granted a one-day extension in which to file its response to the Commission's Order of May 29, 2013 and that the response should be accepted for filing.

IT IS THEREFORE ORDERED that:

1. West Kentucky's proposed increase to basic local exchange rates by eliminating grandfathered rotary dial telephone service rates for its residential and business customers, as set forth in the tariffs attached to its application filed June 11, 2013, are approved.

2. West Kentucky is granted deviation from the filing requirements of 807 KAR 5:001, Section 16.

3. West Kentucky is granted a one-day extension in which to file responses to the Commission's Order of May 29, 2013.

4. Within 20 days of the date of this Order, West Kentucky shall file using the Commission's electronic Tariff Filing System its revised tariff sheets containing the rates approved herein and signed by an officer of the utility authorized to issue tariffs, shall reflect that they were approved pursuant to this Order, and shall contain an effective date of June 1, 2013.

5. Any future increases to basic local exchange rates necessitated by the FCC's ICC/USF Order shall be filed as an application in compliance with Commission regulations.

By the Commission

ENTERED

MAR 26 2014

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

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